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FM AMEMBASSY BERLIN  
TO RUEATRS/DEPT OF TREASURY WASHDC IMMEDIATE  
RUEHC/SECSTATE WASHDC IMMEDIATE 7558  
INFO RUCNMEM/EU MEMBER STATES COLLECTIVE IMMEDIATE  
RUCNFRG/FRG COLLECTIVE IMMEDIATE  
RUEHIL/AMEMBASSY ISLAMABAD IMMEDIATE 0393  
RUEHBUL/AMEMBASSY KABUL IMMEDIATE 0460  
RUEHNO/USMISSION USNATO IMMEDIATE 9391

C O N F I D E N T I A L SECTION 01 OF 04 BERLIN 000555

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E.O. 12958: DECL: 03/18/2017

TAGS: [EFIN](#) [ETTC](#) [PREL](#) [SENV](#) [ENRG](#) [EAIR](#) [MARR](#) [GM](#) [IZ](#) [PK](#)

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SUBJECT: TREASURY DEPUTY SECRETARY KIMMITT'S MARCH 19  
MEETING WITH FOREIGN MINISTRY STATE SECRETARY SILBERBERG

REF: BERLIN 484

Classified By: Charge d'Affaires John M. Koenig for reasons  
1.4 (b) and (d).

11. (C) Summary: Treasury Deputy Secretary Kimmitt and German  
MFA State Secretary Reinhard Silberberg discussed the need to  
maintain political unity within the international community  
on Iran and to work together to ensure effective  
implementation of multilateral agreements. They also  
discussed North Korea, Chancellor Merkel's transatlantic  
economic initiative, energy and climate change, Afghanistan,  
Missile Defense, Sudan/Darfur, and German plans regarding the  
future of Economic Recovery Program funds. End Summary.

Iran Sanctions and Export Credits  
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12. (C) On Iran, Kimmitt told Silberberg the Bush  
Administration had focused recently on making more effective  
use of multilateral frameworks. In order to avoid  
reinforcing the views of some that such frameworks are  
ineffective, Kimmitt said, we need to work to ensure UNSC  
resolutions and other multilateral agreements are implemented  
effectively. He noted recent GAERC conclusions on Iran have  
been helpful, but expressed concern about the EU's failure to  
act quickly to implement UNSCRs 1695, 1718, and 1737. With  
regard to UNSCR 1737 and the next UN resolution on Iraq,  
Kimmitt said it is important for the international community  
to continue to speak with one voice, noting international  
political unity had increased domestic pressure on the  
Iranian president. Kimmitt said concern within the  
legitimate Iranian business community about losing access to  
financing was beginning to cause pressure on Ahmadinejad to  
back away from confrontation in order to help the Iranian  
people.

13. (C) Silberberg agreed on the need to maintain  
international unity. The fact that the second UNSC  
resolution on Iran will be passed after Ahmadinejad's  
appearance before the Security Council is an opportunity to  
show Iran that Ahmadinejad is completely isolated.  
Silberberg said it is increasingly clear that Ahmadinejad's  
domestic position is weakening. Kimmitt noted positively the  
continuing downward trend on German export credit guarantees  
to Iran, but stressed the importance that Germany not allow  
use of the Hermes program to compensate for the risk created  
by Iran's illegal behavior, which had caused Iran's  
investment risk rating to worsen. Silberberg explained that  
Germany's Hermes program does not give export credits to  
Iran, but provides guarantees for German SMEs. While the  
program's intent might be to help German companies, Kimmitt

said, it is important to ensure the export credit program does not compensate for risk created by Iran's illegal activities. German firms that wittingly or unwittingly engage in business with Iranian front companies may also jeopardize access to U.S. markets. Silberberg said the German government cannot restrict legal business activities of German companies. Kimmitt said the USG is not concerned about the companies doing legitimate business in Iran, but stressed those companies have to be fully aware of the high risk of doing business there and be sure they're not doing business with Iranian front companies. (Note: During the meeting, Silberberg received word that Spain and the UK had reached agreement (related to Gibraltar) on wording of an EU regulation to permit implementation of UNSCRs 1695, 1718, and 1737. Silberberg said the agreement should facilitate more rapid EU action on the next UNSC resolution. End Note.)

14. (C) Kimmitt expressed concern about the EU's ability to take all necessary steps against Iranian or other entities engaged in illicit activity in a way that can withstand legal challenges. He asked whether the EU had considered making it possible for governments to use sensitive law enforcement and/or intelligence information to support a decision that is challenged in court. He described U.S. success with the Classified Information Protection Act, noting a top priority for Treasury AML/CFT regulators is to be sure a decision will stand up in court.

North Korea  
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15. (C) Kimmitt described U.S. efforts to engage major banks around the world on the risks of doing business with Iran,

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North Korea, and other countries of concern. He encouraged Germany to adopt similar practices in order to help make implementation of multilateral agreements more effective. Kimmitt said the USG and Germany enjoy the greatest leverage with foreign banks that operate in New York and Frankfurt, respectively. He said the DPRK is moving further west in its outreach to banks. Kimmitt said the USG is cautiously optimistic on the recent breakthrough in the Six Party Talks and described the separate bilateral working group process on financial measures imposed by the USG. Kimmitt said the business-like discussions with the DPRK had confirmed U.S. suspicions about North Korea's illegal conduct. Silberberg expressed appreciation for the update and offered assurances Germany would take steps, if necessary, to prevent the export of an intaglio printing press to North Korea (reftel).

Economic Recovery Program  
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16. (C) Kimmitt said the Treasury Department remains concerned that a German decision to transfer Economic Recovery Program (ERP) funds to the Kreditanstalt fuer Wiederaufbau (KfW) could pose a major political problem. He urged the German Government to address U.S. concerns: that the funds transfer would result in a competitive imbalance and cause a market distortion related to commercial activities that are controversial between Germany and the United States; or that ERP funds might be used to support business with Iran. Silberberg noted that the European Commission is the key regulatory authority on this matter and urged the USG to raise any concerns with the Commission. He also claimed the KfW is no longer seriously engaged in lending for or to Iran.

Charge said the Embassy is involved in consultations with ministries and the Bundestag and noted that language in the bilateral agreement might require the Administration to notify Congress, a development that would lead to a request to suspend temporarily Bundestag action pending the results of a Congressional discussion/review. Kimmitt noted the need to anticipate questions Congress might ask, including providing convincing evidence that European state-owned companies will not benefit from the shift of funds.

Silberberg agreed to provide the information to Embassy.

Transatlantic Economic Relationship

17. (C) Kimmitt said the USG welcomes Chancellor Merkel's transatlantic economic relationship. Sending a clear signal on the importance of the economic relationship, he said, will also help with occasional turbulence that might arise in the transatlantic political relationship. He noted the ongoing U.S.-EU dialogue on financial markets has been a success and suggested the initiative could focus on products and services in pharmaceuticals, transport, and energy security. Kimmitt stressed the importance of EU Council endorsement on March 22 of the Air Transport Agreement, as well as the need to develop a structure to sustain political momentum on the Merkel Initiative over the long-term. Kimmitt said the financial markets dialogue has been effective because of its informal nature and the fact that clear leads have been appointed on each side. He suggested the EU designate a single point of contact on the Merkel initiative and work to set up a framework where leads are required to monitor and report progress from summit to summit.

18. (C) Silberberg agreed on the need to set up a multi-year program and acknowledged the inherent difficulty of the EU negotiation process, including of designating a single EU lead. Kimmitt and Silberberg discussed Commissioner Verheugen's efforts to reduce regulatory and bureaucratic burdens within the EU and agreed his work might provide an opening for dialogue with OMB. Silberberg also noted impetus from the outside would help to energize Verheugen's efforts to reduce government regulation. Silberberg expressed concern that U.S. pressure to designate a single lead would create competition among Commissioners and could prompt Barroso to appoint External Relations Commissioner Ferrero-Waldner. Kimmitt noted that it was the German side that had proposed a complex structure for oversight that included a single EU lead and a "Wise Men's Group". He stressed the need to develop a structure with a light touch that would nonetheless facilitate dialogue at the Commissioner/Department level, where it is most needed.

Energy/Climate

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19. (C) Kimmitt said the USG is pleased Chancellor Merkel has included energy/climate in her transatlantic economic initiative and put it on the agenda for the G-8 Summit. He said both sides recognize the issues we face and essentially agree on similar goals, but differ on how to get there. He stressed the U.S. preference for a market-based solution, noting the strong response from U.S. energy technology companies and venture capital firms. Kimmitt briefly described the U.S. climate/energy dialogue with Asian countries and noted the U.S. strategic economic dialogue with China includes an energy/climate component. Silberberg characterize the March 8-9 European Summit conclusions on climate/energy as a breakthrough, but noted much work remains to be done to achieve the targets set in Brussels. Both Kimmitt and Silberberg agreed on the importance of engaging India and China. Kimmitt suggested more work might be done in the G-20, particularly in light of recent discussion on the effect energy shocks have on financial markets.

Afghanistan

10. (C) Silberberg noted Afghan President Karzai identified energy as a top priority in his meeting with Chancellor Merkel earlier that day (March 19). Karzai said Afghanistan needs energy more than it needs highways. He focused on renewable energy sources, especially hydro-electric projects. According to Silberberg, Karzai told Merkel that

counternarcotics efforts had been most successful in areas with more advanced development projects and had resulted in a decline in poppy cultivation. Karzai identified Helmand province as the most problematic area. Silberberg said Karzai was optimistic about development in Afghanistan, but told the Chancellor it is crucial to bring refugees back to Afghanistan. If not, Karzai said, there will always be a reservoir from which the Taliban can recruit. Silberberg said Merkel was considering possibilities to increase support, either through the UNHCR or on a bilateral basis. Noting Karzai's frustration with Pakistan, Silberberg said Germany would invite foreign ministers from Pakistan and Afghanistan to meet with G-8 foreign ministers in May. The focus of the discussion will be on cross-border cooperation and overcoming lingering distrust.

#### Missile Defense

¶11. (C) Charge expressed concern about the use of "arms race" rhetoric by some political figures, including in the Government and the MFA, in public discussion of Missile Defense (MD). While LTG Obering's March 15 briefings for German officials had been helpful, Silberberg said, more work needs to be done to overcome long-held German sensitivities. He said German public reaction on MD was spontaneous, adding that the growing public debate points to a need for more discussion at the political level. The German Government agrees NATO -- not the EU -- is the appropriate forum for further discussion. He said consultations with Russia should continue to take place in the NATO-Russia Council. Kimmitt said NATO members need to recognize that communiqués like the Riga Declaration matter and have to be honest about what has been discussed and said in the past. He said European governments also have an obligation to point out the disproportionate resources Iran has invested in developing a missile delivery system and to make sure the public is fully aware of the risks they face. Silberberg said MD is the subject of ongoing debate within the German Government and said he would be in touch with Charge after a series of internal, interministerial meetings had taken place.

#### Sudan/Darfur

¶12. (C) Kimmitt asked whether Germany has information about the Sudanese oil program, saying the USG was interested in finding ways the international community could exert pressure more effectively. He said Treasury will soon make another set of sanctions designations and is considering steps to disallow cover payments through front companies. Silberberg described Germany's bilateral trade with Sudan as marginal, noting there are no major German commercial interests in Sudan. He said African solidarity was crucial to achieving a solution in Darfur.

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¶13. (U) Deputy Secretary Kimmitt has cleared this message.  
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